



Nucleus Software Exports Limited

Q4 & FY15

Earnings Conference Call

May 8, 2015

Members of Nucleus Management

Mr. Vishnu R. Dusad	Managing Director and CEO
Mr. R P Singh	Director & Head, Global Product Management
Mr. Ashish Nanda	Global Head, Finance and Account
Mr. Avnish Datt	Executive Vice President, Global Head Strategy
Mr. Pankaj Bhatt	Executive Vice President, Professional Services

[Note: This transcript has been edited for improved readability]



Meenakshi Sharma:

A very warm welcome to all of you at this Nucleus Software Earnings Conference Call for the quarter and year ended March 31, 2015. For discussions, we have here from the management team Mr. Vishnu R. Dusad, our Managing Director and CEO, Mr. R. P. Singh, Director and Head, Product Management, Mr. Ashish Nanda, Global Head, Finance and Accounts, Mr. Avnish Datt, Executive Vice-President, Global Head Strategy, and Mr. Pankaj Bhatt, Executive Vice-President, Professional Services.

Nucleus Software does not provide any specific revenue-earnings guidance. Anything which is said during this call which may reflect our outlook for the future or which may be construed as a forward-looking statement must be reviewed in conjunction with the risk that the company faces. An audio and transcript of this call would be shortly available on the investors section of our website www.nucleussoftware.com. With this, we are now ready to begin with the opening comments on the performance of the company for the quarter ended and year ended 2015 from the CEO. And post that, we would be available for the Q&A session.

With this, I now pass it over to Vishnu.

Vishnu R. Dusad:

Thank you, Meenakshi and good afternoon, ladies and gentlemen. I am pleased to connect with you at this earnings call for the fourth quarter and year ended March 31st, 2015. Financial Year 2015 has seen significant progress in our transformation. In our continuous efforts to drive focused growth we made strategic investments in sales and marketing, introduced new products and further strengthened our leadership team to help drive the transformation and continue the momentum of growth. Seventh year in a row we were ranked as having the world's Bestselling Lending Solution. We are excited about the opportunities in the coming year and look forward to reaching new heights by using our award-winning solutions to help our customers increase revenue, streamline operations and improve customer-centricity. We will increase our market penetration and bring new initiatives to market.

Over to you, Ashish.

Ashish Nanda:

Good afternoon everybody. This is Ashish and I welcome you all to this conference call.



- **Our Consolidated revenue** for the quarter is at Rs. 100.9 crore against Rs. 86 crore QoQ and Rs. 87.7 crore YoY. **For the Year** it is Rs. 353.1 crore, against Rs. 346.2 crore for the previous year.
- **Overall Revenue in foreign currency including India Rupee revenue** is US\$ 16.2 million for the quarter, against US\$ 13.9 million QoQ and US\$ 14.1 million YoY. **For the Year** it is US\$ 57.1 million, against US \$ 57.8 million for the previous year.
- **Product revenue for the quarter** is at Rs. 75.4 crore, against Rs. 61.9 crore QoQ and Rs. 59.1 crore YoY. **For the Year** it is Rs. 255.6 crore, against Rs. 238 crore for the previous year.
- **Revenue from projects and services** for the quarter is at Rs. 25.5 crore, against Rs. 24.1 crore QoQ, and Rs. 28.6 crore YoY. **For the Year** it is Rs. 97.5 crore, against Rs. 108.3 crore for the previous year.
- **Cost of delivery including cost of product development for the quarter** is 52.4 % of revenue, against 58.7% of revenue QoQ and also similar % of revenue YoY. In absolute terms this is Rs. 52.8 crore against Rs. 50.5 crore QoQ and Rs. 51.5 crore YoY. **For the Year** it is 204.5 crore (57.9% of revenue) against Rs. 211.7 crore (61.2% of revenue) in the previous year.
- **Marketing & sales expense** for the quarter is 13.8% of revenue, against 12.1% of revenue QoQ and 11.6% YoY. In absolute terms this is Rs. 14 crore against Rs. 10.4 crore QoQ and Rs. 10.2 crore YoY. **For the Year** it is Rs. 46.6 crore (13.2 % of revenue), against Rs. 36.2 crore (10.4% of revenue) in the previous year.
- **G&A expense for the quarter** is 9.4% of revenue, 11.7% of revenue QoQ and 6.8% YoY. In absolute terms this is Rs. 9.5 crore against Rs. 10 crore QoQ and Rs. 5.9 crore YoY. **For the Year** it is Rs. 36.8 crore (10.4 % of revenue), against Rs. 31.7 crore (9.2 % of revenue) in the previous year.
- **EBITDA for the quarter** is at Rs. 24.6 crore (24.4% of Revenue), against Rs. 15 crore (17.5% of Revenue), QoQ and Rs. 20.1 crore (22.9% of Revenue), YoY. **For the Year** it is Rs. 65.3 crore (18.5 % of revenue), against Rs. 66.6 crore (19.2 % of revenue) in the previous year.
- **Other income from investments and deposits** is at Rs. 6.7 crore against Rs. 9.1 crore QoQ, and Rs. 3.8 crore YoY. **Total other Income for the quarter** is Rs. 7.5 crore against Rs. 12.3 crore QoQ and Rs. 7.5 crore YoY.
- **For the Year, Other income from investments and deposits** is at Rs. 26.3 crore against Rs. 18.7 crore for previous year. **Total other Income for the year** is Rs. 33.3 crore against Rs. 24.6 crore in the previous year.
- **Total taxes** are at Rs. 8.3 crore, 28.8% of PBT, against Rs. 4.6 crore, 19.2% of PBT previous quarter, Rs. 6.1 crore, 24.4% of PBT in Mar 14 qtr. **For the Year** it is Rs. 21.9 crore, 25.3% of PBT against Rs. 18.9 crore, 22.7% of PBT, in the previous year.



- **Net profit** is at Rs. 20.6 crore for the quarter, 20.5% of revenue, against Rs. 19.6 crore, 22.8% of revenue QoQ and Rs. 18.8 crore, 21.5% YoY. **For the Year** it is Rs. 64.7 crore, 18.3% of revenue against Rs. 64.3 crore, 18.6% of revenue, for the previous year.
- **EPS** for the quarter is at Rs. 6.37 as against Rs. 6.04 in the previous quarter and Rs. 5.82 in Mar 14 quarter. **For the Year** it is at Rs.19.98, against Rs. 19.87 for the previous year.
- In terms of **foreign currency hedges**, on Mar 31, 2015 we had USD 10.14 million dollars of forward contracts at an average rate of 64.52. There is a mark-to-market gain of Rs. 0.69 crore which is taken to hedging reserve in the balance sheet.
- **Revenue contribution from the top 5 clients for the quarter** is 49% against 45% previous quarter.
- **The order book position** is Rs. 352.7 crore including Rs. 307.9 crore of products business and Rs. 44.8 crore of projects and services business. **In Dec 31, 2014** the order book position was Rs. 235 crore including Rs. 177.1 crore of products business and Rs. 57.9 crore of projects and services business.
- **Total Cash and cash equivalents** as on Mar 31, 2015 are Rs. 348.3 crore against Rs. 327.1 crore as on Dec 31, 2014. This includes balances in current accounts of Rs. 16.3 crore, liquid fund schemes of mutual funds Rs. 70.7 crore, Rs. 45 crore in fixed maturity plans, fixed deposits with banks of Rs. 162.6 crore and investments in tax free bonds of Rs. 53.6 crore.
- With regard to **receivables**, we are at Rs. 84.6 crore against Rs. 54.3 crore previous quarter.
- During the year, **there is a gross addition of fixed assets** of Rs. 9.72 crore, consisting primarily of Rs. 7.76 crore computers and equipments and Rs. 1.96 crore on software licenses.

With this, I now hand it over to R.P. Singh for his update on products.

R.P. Singh:

Thank you, Ashish, and good afternoon to all. Actually I have a very good news today. First, I'm extremely happy to share that we went live with FinnOne™ Neo, the new architected, re-architected, re-designed lending products at our very first earlier adopted customer. It was the result of committed hard work of the teams both our own as well as the customers and relentless support from the management there. I wish to share that the customer is extremely happy with the product and can foresee it helping them establish a leadership position in the industry in terms of operational and credit efficiency. The second good news that I have is, that we went live with another customer of FinnAxia™, our corporate cash management product at one of the largest African bank. With this, we are now going to market with our latest releases of both products with the



sole focus of delivering business value to our customers. So I hope to have more good news next time.

This is s all from my side. Over to Avnish.

Avnish Datt:

Thank you, R.P. and good afternoon, ladies and gentlemen. I have the privilege to give you an update on what is happening on the go-to-market side of our business. So we continue to steadfastly progress on the transformation path. As I have shared with many of you over the last few calls, we started enhancing our value engagement, at the same time building up the go-to-market team with adding senior talents across geographies. I am happy to report that we appointed a very senior person to start business development in the US. We also added a country manager for Australia. Between the two of them, they bring more than 50 years of experience in the domain. We also added mid to senior level positions in other geographies including a country manager for Indonesia, which is emerging as an interesting market for us. On the global side, we added a very senior resource in Singapore for managing the go-to-market for our transaction banking business. We also had a customer event in Africa where we discussed future of lending with banks in Africa including our existing customers. The event was very well received, and generated very positive conversations. Some other interesting update is that we also continue to update our marketing and positioning materials, so our website underwent a complete change and it was released end of this last fiscal beginning of the current one. So I would invite all of you to visit our website and also give us your important feedback. We have had towards the last quarter some new wins both on the lending side of the business and positive dialogues continue across geographies.

With that, let me just pass it on to Pankaj.

Pankaj Bhatt:

Thank you, Avnish and good afternoon, ladies and gentlemen. In The quarter ending March 2015 we have completed the implementation of 12 product modules which include eight modules from FinnOne™ and four modules from FinnOne™ Mobility suite. For the year ending March 31, 2015, we have implemented 22 modules across regions and these include the implementations of our products FinnOne™ Neo, FinnOne™ Mobility and FinnAxia™ across the portfolio.

With this I'll hand over to Meenakshi.



Meenakshi Sharma:

Thank you, Pankaj. With this we are ready for the Q&A session.

Gaurav Sood:

Congratulations on the successful launch of the products and the new wins. I see that your order book has improved quite a bit. So does that mean that these new orders are around the new product which is FinnOne™ Neo?

Avnish Datt:

Yes, Gaurav you are right. The new orders are around the products FinnOne™ Neo.

Gaurav Sood:

In your geographical breakup it seems that revenues have come from Australia, so the implementation is going in Australia, is that a single product win or there are multiple products out there?

Avnish Datt:

Gaurav, it is a large engagement that we have had in Australia and this basically is the progress of implementation in that engagement.

Gaurav Sood:

And is that FinnOne™ Neo?

Avnish Datt:

That one is the old product, Gaurav. That is FinnOne™.

Gaurav Sood:

I can also see that the operating margins, EBITDA margins have improved from year-on-year from 18% to 24%. So given the large jump in orders and these projects coming into fructification so we hope to see this margin expansion going forward, will this continue or this is more of a number?



Vishnu R. Dusad:

I think we are in a phase where we will continue to invest in building the brand and creating a very solid reach in all the geographies where we are focusing. So we may not be able to comment on the margins because this should take quite some time in terms of the brand getting established then the revenue seems coming in. So it is difficult for us to comment on how the margins would unfold.

Gaurav Sood:

There is no clarity on the margin part given the fact that you are going to be investing in sales and marketing, but one can assume that finally the revenue will start growing from this point onwards?

Avnish Datt:

I would suggest that let's see how it fructifies. We are very hopeful, but as I mentioned a few times earlier we are undertaking value engagement, engaging very early with the customers and being with them right through the decision making cycle. By definition this is the longest sales cycle.

Gaurav Sood:

We are trying to understand what is the key advantage that the new product FinnOne™ Neo has over the old product?

R.P. Singh:

I could spend a day on this, but I will be very concise. Of course we started it as a technology refresh initiative, but on the way included all our learnings of the last few years or things that have given us trouble or things that we have come across as new value opportunities that we could deliver to our customers. We have managed to build all of that into the product and I personally feel that it is far more richer in terms of value opportunities that it carries that can deliver business value to customers and that is probably the strength over the previous product. I think a lot of learning of our past have gone in and of course that includes a lot of inputs we got from our customers.

Gaurav Sood:

So, one is the improvement in terms of the functionalities and the features of the products, but also is this a product that is cloud compatible?



R.P. Singh:

Yes, of course. That's right. So, technologically it is extremely I would say current or advance, progressive, but obviously from a technology perspective it is Cloud ready and going forward now we are looking at business opportunities where Cloud offerings would make sense and hopefully that will also fructify soon. So from a product perspective it is Cloud ready today.

Gaurav Sood:

The fact that the Neo went live in one of your Beta customer site means that now it is production ready.

R.P. Singh:

That is right. I mean while we were already in the market with it, however this obviously gives a huge boost to us from our own confidence as well as confidence in prospect buyers who then are able to see it running because to be the first adopter is a very bold decision and we were lucky to have a very bold customer who supported us in this and of course that gives us a good feeling.

Piyush:

First of all congratulations on a super result.

I have two questions. Number one is on order book which stands at close to Rs.350 crores, over what period of time could this get executed?

Ashish Nanda:

It is expected to get executed over the next 18 months to 24 months.

Piyush:

I appreciate that you don't give guidance, but if I was to just look at the pipeline as compare to the order book. Would we say that this order book is say third of the potential pipeline a quarter, half, where would it sort of be?

I just wanted to get some idea of the pipeline build. I mean, what is the pipeline looking like? We are showing tremendous momentum almost a Rs. 125 crores of increase in the



order book over the last quarter. Is this momentum likely to sustain. What is the kind of sales momentum that we would be seeing now?

Avnish Datt:

In terms of sales momentum like I said we are moving to a completely new sales model and we have made substantial progress in terms of getting the right kind of talent in place, filling various senior level positions in different geographies and also providing the sales team with the right kind of training and up skilling over the last 12 months. Now, what we have started seeing which you probably reference in the number, the pipeline build up is happening in a far more systematic way. Also it is not a pipeline which is RFI, RFP driven. There are two kinds of opportunities as I like to call them, is the opportunities that we create and the opportunities that we stumble upon. The quality of pipeline is more and more leaning toward the opportunities that we are creating rather than the ones that we are stumbling upon. Piyush, we still haven't stabilized the rhythm such that I can give you a very concrete answer to this question, but the trends are very positive.

Piyush:

I could understand that I have sold enough software to realize that RFP, RFI driven pipeline is usually a salesman imagination more than anything else. But basically if one was to look at our addressable market, I mean within a year the kind of clients you want to target, what would be their spend be on software like yours, would it be in the billions of dollars, would it be in the hundreds of millions, where would that fall?

Avnish Datt:

I wish I could answer this question. I initially grappled with this and I found out that most of the data that is available is really around the core banking space and lending as an add-on to core banking. What we are trying to do is divorcing ourselves from a formal construct that residual market and hence occupying a part of that market. We are looking at pitching for opportunities where the customer might be functionally all right with the current lending technology. But we think we would make sufficient difference to their lending business if we were to propose our solution, and that seems like a fairly sizeable market. Of course, it is easier for us to start with large regional banks and the geographies that we are in, and also the international operations of global tier 1 banks.

Piyush:

By and large when you say, this product adds significant value as compared to the first one. From what I know the product has been re-architected to a single core which makes



an internal operations easier rather than client value addition. In terms of client value what have you added something like predictive analytics or is it just better business operations?

R.P.Singh:

What we have already delivered for instance one of the key thing is that our architecture is built around various engines which allows finance companies to offer new innovative ideas very quickly. So, the go-to-market with new products, new schemes, new pricing and composition these are the things that get enabled. The efficiency is with integration, with imaging and this is what brings in what you call cost effectiveness or overall efficiency because it also translates into lesser turnaround time for borrowers and prospects end customers. For analytics I would say at this moment we do have a piece which is going to get improved this year. Mobility is already out along with the product. So we are focusing on the core engines, we are focusing on mobility, we are focusing on analytics as well. Analytics is something that we would see this year.

Shalabh Agrawal:

Good evening, gentlemen and congratulations on a very good set of numbers. Sir, I just wanted to understand that since now we have launched the new product FinnOne™ Neo, are we still continuing to sell the earlier product, because in one of the earlier questions there was an answer that in Australia, we have sold the earlier product?

Avnish Datt:

The Australian sale actually happened before the official launch of FinnOne™ Neo. So that is as well under implementation right now. We are not actively selling the old product any longer.

Shalabh Agrawal:

Sure. How is the response from customers when we approach them for upgrading to the new product, is that something that we are actively trying and what is the kind of response that we are getting from different customers?

Avnish Datt:

We officially launched the product last year in June where we broadly showcased the product value proposition, the various modules. That generated a lot of excitement and heat both amongst our existing customers as well as the new prospects. We did that



across various geographies and the nature of interest seems very consistent, Shalabh. So that was the early one. Of course, many of our existing customers have seen the product and are very interested, so there are some discussions with existing customers on how to do and when to move them over. The timing is crucial because there is a lot of data that they already have over the existing product, but those conversations are underway. We are also very selective with picking which customers to have the dialogue within phase one because, we also want to manage this whole exercise of turning them over from old to new. In terms of new customers and the new prospects, let me also share with you that we had our global sales kick off couple of weeks back in Singapore where the entire sales and go-to-market team got together around 80 of them, and we had our senior leadership team, and senior leaders from all the divisions. We also organized the customer panel interaction with some of our, new customers and a couple of old customers. The new customers obviously had seen the product demo and the value proposition. One of them said, "It's a game changer and it will put them far ahead of competition", the other said, "With this you seem to be the Numero Uno in lending." I would ascribe some of that to, you know, the exuberance of the occasion, but I think it was conveying how they perceived the product.

Shalabh Agrawal:

Great. I really appreciate this. Sir, I just wanted to understand typically when we try to upgrade a customer, how much time does it typically take to migrate from our existing system to this new system, for the customers, is it like months or it will be couple of quarters, how much time does it typically take?

R.P.Singh:

Fortunately we got a huge wide variety of customers. Some with simple products and offerings with smaller portfolios, some with extremely complex with complex portfolios as well as complex processes. The whole range would be anywhere from 3 months to 18 months.

Shalabh Agrawal:

So, probably one of your largest customers in India would be upwards of a year. Would that be a correct assessment broadly?

R.P.Singh:

Of course. There is no doubt about that. They have large portfolios, very complex operations.



Shalabh Agrawal:

So this new product will also follow a typical cycle where we will have license revenues and there will be some maintenance revenues which will kick in depending upon the level of services we provide to the customers, post map, will it also follow a similar business cycle?

Avnish Datt:

Basically, it would have license revenues and maintenance or AMC revenues, actually the implementation revenues could either be with us or with the partners.

Shalabh Agrawal:

Sure. The number of new deals or the new products that we announced every quarter, does it also include the upgrades, now because we will have customers who might be upgrading to neo from the existing versions. So, those will be counted as a new product sale, is that how we count them?

Avnish Datt:

Yes. Every license sale is a new product sale, if I'm not wrong, Ashish?

Ashish Nanda:

Yes.

Pritesh Chheda:

Thank you for the opportunity. Just on the order book side, what could have been the corresponding order book last year end when we started the FY15 and what would have been the execution time period for that backlog?

Ashish Nanda:

The corresponding order which was there as of the beginning of the year was Rs.258 crores and the execution cycle again is around 18 months it depends upon various kinds of order, but you can roughly assume it is between 12 to 24 months depending on the order.



Pritesh Chheda:

There is no change in the execution cycle between last year and this year's backlog?

Ashish Nanda:

Not significantly.

Pritesh Chheda:

On the client upgrade to the new product the existing clientele, what kind of revenue potential is possible there so, on the product upgrade to an existing client when IP sell to an existing client on the newer version, what kind of revenue potential is possible, if hypothetically we assume that all the clients migrate to the newer version?

Avnish Datt:

I would hesitate to give you a number, but like I described in response to an earlier question, we are going to do migrations on a phase-wise basis and several factors would come into play, how complex is the migration, what is the preparedness of the customer at this stage. But we are having dialogues in a fashion such that ours and their interest converge.

Pritesh Chheda:

Even it would involve an IP sale followed by implementation followed by AMC?

Avnish Datt:

For the existing customers who migrate to the new product?

Pritesh Chheda:

Yes.

Avnish Datt:

Yes, absolutely. There will be a license fee and implementation and maintenance. So, it will exactly be the same model.



Pritesh Chheda:

For the license fee between new and the old product, what kind of price differential is there?

Avnish Datt:

So, we have actually moved away from a list price based model now, so in any case what we do is value based pricing and in this case the value assessment would be done a bit differently because they are already using an old product. So, there would be a differential, but depending on the size of the clients business, the nature of the earlier implementation and so on.

Pritesh Chheda:

Is it fair to assume that the pricing would be higher for the newer product vis-à-vis the older product?

Avnish Datt:

Yes, of course.

Pritesh Chheda:

You have substantial cash in the balance sheet, what can be the possible alternatives for usage and my other question is on the product line that we have today, what can be the extensions or add on in the product line?

Vishnu R. Dusad:

As far as the extensions and add-ons are concerned, yes, there can be many in different directions and our able product team is looking into all those possibilities and we have as R.P. mentioned, , come out with Mobility and we are coming out with more related areas. We have next three releases which have been planned out and these are half yearly releases. So, that is how the core product is going to progress and we will see if we can further accelerate some of this development. As regards the cash, we just want to mention that we are building a long term institution and we are in no rush to make use of the cash necessarily in any hurried manner. We would want to keep it. This is hard earned money for some meaningful utilization. We would want to, make all of you rest assure on that account.



Pritesh Chheda:

Is it possible to know what would be the market share that you would have?

Vishnu R. Dusad:

It is very small, I would say of the Global market it is at the most 1%.

Pritesh Chheda:

So, it is the core platform which would take away a much larger share?

Vishnu R. Dusad:

When I say 1%, I am referring to only the lending part of the business. There are any number of players who are using systems developed in 70's and 80's and they are still running on those platforms. They do not have too much of a choice. So, that is what I am including when I am saying we have only 1% of the share of the market.

Pritesh Chheda:

So, when you consider it, you are basically considering, adjourns to the core platform. So basically, an outside vendor supplying a lending management software which is then plugged on to the core, that part?

Vishnu R. Dusad:

When I say there is a very sizable market at that time I am including, both in house systems as well as the systems supplied by outside vendors and the reason we are including the in house system is, these in house systems are overdue for change and we have a feeling that they would all be replaced by outside suppliers, as and when they get replaced.

Tarbir Shahpuri:

Congratulations on a great set of numbers, sir. Is there any potential tie up that we may have with some of the bigger players for sales distribution?

Avnish Datt:

We are having conversations with several potential partners in two or three different spaces, one is consulting partners who might be your access to large dealers in the



developed economies. The other is IT Services companies as partners. These are people who already have a strong BFSI vertical and have deep engagements with the banks and financial institutions and are looking for an active product partnership. The third set of partners are our channel partners in geographies like Africa and South-East Asia. They continue to be a source of providing sales referrals to us.

Tarbir Shahpuri:

That is fine, sir. Have you seen any renewed interest after the new launched product or any more interaction in that sense?

Avnish Datt:

Yes, I think there is a renewed interest from consulting partners as well as the IT services firms. In fact, R.P. and I were in Singapore in a long meeting with one of the top IT services companies. They are representatives from the Banking Financial Services Practice and I continue to see that interest across.

Vinod Malviya:

I just wanted to know that if I look at total implementation historically it has been constantly coming down, in FY13 it was like 85, now it is 22 in FY15. So, I just wanted to understand what was the reason that implementation nos. have been coming down over the last 3 years?

Vishnu R. Dusad:

Sorry. What exactly do you mean by implementation?

Vinod Malviya:

The product implementation every year which we have been doing, has been constantly falling, the number of implementations basically?

Vishnu R. Dusad:

The way I would suggest, we look at it is, for some of our implementations may be the size of the implementation would be increasing now and that is the reason a number of implementations would be coming down.



Vinod Malviya:

With this new product or the updated product which we are launching, so the implementation or the size would be becoming even better going forward?

Vishnu R. Dusad:

It depends on the size of deals that we get, but, yes, gradually you can say that.

Vinod Malviya:

Can you just provide me the average numbers like when you had in FY13 you had 85 implementation, what would have been the average like price or something and when you compared it to 22 implementation in FY15, what would have been the number?

Vishnu R. Dusad:

Average is very difficult to make out in our kind of business because some of them would have tens of millions of loans and others would have tens of thousands of loans. So, our products gets used by customers who are very different in size so average is almost meaningless.

Vinod Malviya:

One thing was on the effective tax rate, if I look at for this quarter has actually increased on both y-o-y in sequential basis. What it could be because of, I mean can you just provide some light on that?

Ashish Nanda:

So, primarily if you remember, there was a change in the tax in July in the new Finance Bill because of the FMPs, if you remember the tax rate has gone up and our investments are there significantly in the FMP's. That has contributed towards the increase in the tax which has gone up.

Shalabh Agrawal:

In the next couple of years as we grow and there is a good focus on international geographies were we are building up a team recruiting senior members, in this entire strategy on the international side, do you think partners will play a very significant role going forward?



Avnish Datt:

It is and that is a very insightful question that you asked. We have as a part of adding and acquiring senior level talent. We also had a gentleman joined us in Europe as the Global Head for partnerships and alliances and you see partners playing a crucial role. Many of the high value deals especially in developed markets, partner get to see them before any of the technologies suppliers get to see them. So, that is why they would play a key role especially in large deals.

Shalabh Agrawal:

Okay. Because if I am not wrong, as of today the contribution from the partners would not really be that significant for us?

Avnish Datt:

Yes. You are right.

Shalabh Agrawal:

So, from the organization perspective there is a renewed focus and there is a recognition to the fact that, you know, internationally success is only possible if there are good partners available throughout different geographies.

Avnish Datt:

I would perhaps not go so far as to say that success would only be possible through partners. However I think for capitalizing on large deal opportunities, it will be important for us to have solid partnerships that give us visibility very early on in those deals.

Shalabh Agrawal:

The way we approach in different geographies, is that materially different in some of the key geographies for us?

Avnish Datt:

I mean the fundamental selling cycle doesn't differ all that much, but yes it does have flavours of variations from geography to geography as an example, Africa is a highly partner driven market, Middle East is a market where you don't have partners who are



end-to-end partners, but they are basically ones who provide you some sales leads. In geographies like South-East Asia, you have partners of both kinds. You have got small partners who might just get you into a discussion with a mid-size bank and you have large partners who have got multiple country presence in South-East Asia and they run a very organized operations not unlike ours. So, yes, it does vary from geography to geography.

Shalabh Agrawal:

Do you think geographies especially the developed world, you know, western side would be a limited opportunity for us because maybe banks are already using some other software or, other companies are already present and they are already on some other systems.

Avnish Datt:

Actually for all the reasons that you have just said, we see our opportunity precisely because of that. Many banks are using old legacy systems and haven't had a technology refreshed for the longest of time. Most analysts have been talking about how a technology refresh is overdue for many years. We think banks would start taking those steps pretty soon now. Also our value proposition right now as I explained a little while earlier is not really a reactive to an RFI, RIP stage which means that a bank has made up mind and they have realize the need and so on. We are also trying to develop the market where we state the value proposition and we do what we called the As Is Value Workshop, where we show it to the bank and understand how their current business processes are and then create some sort of a value proposition around what might be available to them if they want to move over to our technology.

Shalabh Agrawal:

For the investments, the future investments because now we have stated that we will be coming out with an upgrade every six months if you can just help us understand what and how are we investing in keeping up our product updated with all the changes which are happening globally? And when will be the next upgrade due because this probably, you know, we started marketing in last June, so when do we formally come up with a newer upgrade?

R.P.Singh:

So, we have got six monthly releases for both our products FinnOne™ Neo follows in October-April cycle and FinnAxia™ follows in the June-December cycle. You will find



FinnAxia™ new releases coming out every June and every December and April and October for FinnOne™ Neo.

Shalabh Agrawal:

So, would it be correct to say that FinnOne™ Neo next upgraded version would be due in October and FinnAxia™ is in December?

R.P Singh:

FinnAxia™ is coming out in June.

Piyush:

Just slightly curious, I'm sure you have got a lot of larger product companies approaching you for either tie ups or an outright buy out given the quality of your product. What's your approach or a reaction to feelers of that kind?

Vishnu R. Dusad:

We have been getting these kind of approaches for almost decade and a half now, but our consistence response has been that we are going to be an independent organization and that is what continues to be our response.

Romel Singhla:

Congratulation on making those set of numbers, sir.

We just wanted to understand more about the global opportunity for the lending business that we are in and how do we see that moving forward after the revamp of the product architecture?

R.P Singh:

So, broad way and I think we have talked about the size and I think we should put it very appropriately. There are in any case lots of deals happening on people wanting to upgrade their lending platforms and we also see a huge opportunity in replacing legacy solutions which are mostly in house maintained at this moment. And we feel that the new product, because of its new technology and the flexibility that it provides will enable us to provide competitive solutions in the developed markets where we are not currently really present also and that's where the platform will allow us to offer value as well as very quickly



adapted and localize it to those scenarios. Parallely, I just wanted to mention as part of the product we are also working on, tools that will allow us to move customers on to our product from old legacy systems because we believe one of the issues that holds people back is the huge apprehension or the fear of the unknown about their existing platform. Nobody really knows what is running in their core and we are also investing and doing research on how we can solve this apprehension of our customers or potential customers. So, I think the product and the tools along with it are being aimed and are focusing their entire investment into how to get into these new markets and still deliver value.

Romel Singhla:

So, what I understand is that the strategy going forward is primarily to target the Western markets where early we were not able to make it right.

R.P. Singh:

You are right. At a technical level, one of the biggest issues was the technology base of the product which of course the new products has showed to be advance enough for us to get into the developed market. So, that's right.

Romel Singhla:

Apart from the technology, what kind of other enabler's like the channel network, etc that we have in place because I remember in last seven-eight years we have been trying very hard to break into the European as well as other developed markets. But was it primarily due to the lack of the product if technology part of the product or it was also due to the other supporting infrastructure which is the chain and channel network as well as we being primarily the lending solution rather than an integrated solution?

Vishnu R. Dusad:

Incidentally, FinnOne™ is among the very few products out of India which are running in Europe since 2006, almost a decade now and we have implementations in 11 countries.

Romel Singhla:

Yes.



R.P.Singh:

I think over a period of time we also realised there has to be a full strategy backing entry into new markets and I guess our strategy was growing into homogeneous geographies starting from India into South-East Asia, Middle East and Africa. At some logical time, we also felt that if we go into the developed markets with the older FinnOne™ it probably will not be absolutely appropriate and we decided that we may as well refresh the technology and then approach that market which actually, though it is not so relevant according to us, but it is a little technology sensitive and our whole thought was to be a far more attractive to them when we really enter and entering a new market is not very easy, especially with products. Mixture of a lot of things.

Romel Singhla:

So, now with the technology architecture being revamped as well as when you are saying there is the new sales focus that we have, we are hopeful of the developed markets, right?

R.P.Singh:

That is right.

Romel Singhla:

The global market share is 1% of the lending market?

R.P.Singh:

The lending systems and the spent that customers go on just maintaining and sustaining the pending IT operation.

Romel Singhla:

About the other geographies where we are traditionally strong with different parts of Asia. What kind of opportunity we see in terms of deeper penetration into those markets?

Avnish Datt:

So, for example, in South-East Asia we are seeing now on the transaction banking side tier 2, tier 3 banks and including some tier 1 banks focusing on cash management and liquidity management and these are some of the renewed areas for banks and those geographies. We are also just about seeing some interest picking up in Middle East on the transaction



banking side. On lending the credit mutual and there is geographies, they have been on legacy platform for a long time and they are getting interest in the new technology tool.

Romel Singhla:

Can I have an estimate of the approximate share that we hold in this marketplace especially the Asia based we are currently having the majority from the revenue firm. I just wanted to understand the ballpark and current penetration on the opportunity we have?

Avnish Datt:

So, in most of the geographies where we have traditionally been present for a while. Our penetration is quite strong. So, for example, top four out of top five Indian banks use our technology. It is reasonably similar in South-East Asia. So I would say in terms of market penetration we already have in our markets that we have been present for a long time. We have a sizable penetration. We are actually moving away from measuring the market share view. What we are looking at is developing green field opportunities which you normally wouldn't cover up in a former addressable market construct.

Romel Singhla:

What is your geographical breakup for the current order book, though it's largely from the traditional area that we are or is it also comes from new areas, sir?

Ashish Nanda:

On the order book side geographically we can come back to you on that question.

Romel Singhla:

The billing is largely in the currency for the entire or Asia operation is largely denominated in USD only or some part of the billing is also in Japanese Yen?

Ashish Nanda:

It is in both which is in both USD and Japanese Yen. In Japan, we generally bill in Yen as well as USD depending on our contracts.



Romel Singhla:

And rest of this is totally USD?

Ashish Nanda:

Primarily, USD.

Meenakshi Sharma:

Thank you to all of you for joining us for this Earnings Conference Call for the quarter and year ended March 31st, 2015. It was a pleasure having you here and I would now pass it on again to Vishnu for his closure comment.

Vishnu R. Dusad:

I would like to take this opportunity to thank you all very much for your interest in Nucleus Software and I would like to reiterate our commitment to building a long-term institution which will add value to society.

Thank you.